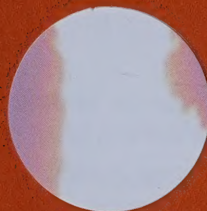
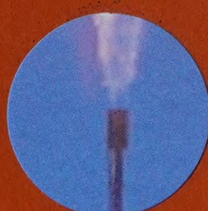




GALLEON ENERGY INC.

Successful Start

ANNUAL REPORT/03

TABLE OF CONTENTS

NOTICE OF ANNUAL MEETING

The Annual and Special Meeting of Galleon Energy Inc. will be held at 10 a.m. on Wednesday, May 5, 2004 at Bow Valley Square Conference Centre (third floor of Bow Valley Square), 300, 205 – 5th Avenue SW, Calgary, Alberta T2P 2V7. Shareholders are encouraged to attend the meeting. Shareholders who are unable to attend are urged to complete, sign and return their form of proxy mailed with this report.

Significant **Discovery**

Dawson

Open flow test exceeded 15 MMcfd (2,500 boepd)

Capable of producing over six MMcfd (1,000 boepd)

Expected to be on production in Q2/04

65% working interest

REPORT TO SHAREHOLDERS

We are pleased to report that Galleon Energy Inc. has had a very successful start. Galleon has realized strong growth in production from zero to in excess of 1,300 barrels of oil equivalent per day in the first six months as a public company. In addition, we have assembled a very solid drilling inventory of over 40 wells to accelerate current production growth.

In starting the company, we set an objective to have significant annual growth in reserves and production on a per share basis by following key strategies:

- *Grow through a balanced business plan comprised of focused exploration, strategic acquisitions and controlled exploitation*
- *Maintain a high quality asset base*
- *Maintain a strong balance sheet*

To meet this objective people, properties and capital were essential. The following has been accomplished:

People

- *Assembled a staff of 14 with an average 16 years of industry experience*

Properties

- *Acquired daily production of 700 barrels of oil equivalent through four purchases*
- *Purchased 24,320 gross acres of undeveloped land*
- *Negotiated access to over 279,160 gross acres of undeveloped land through 13 farm-in agreements*
- *Drilled 25 wells with a 72% success rate*
- *Assembled an inventory of over 40 firm well locations*

Capital

- *$1.05 million was raised privately*
- *$10.25 million was raised by the original public offering on September 30, 2003*
- *$14.65 million of net stock was issued to acquire a private company on January 15, 2004*
- *$12 million was raised by a bought deal financing on February 10, 2004*
- *$10 million bank line of credit has been established*

Galleon has had a successful start with the key components assembled to create value and achievable, sustainable growth through continuing execution. This value increase has been reflected in the Class A share price appreciation of 170% from $2.10 in October 2003 to $5.70 currently.

Production guidance for 2004 has been recently increased to a daily average of 1,475 barrels of oil equivalent with a year end exit target of 2,500 barrels of oil equivalent. This represents, in 2004, 160% growth on an average quarterly basis from the first quarter to the fourth quarter. The Dawson and Calais exploration areas provide the core of this strong, continuing growth.

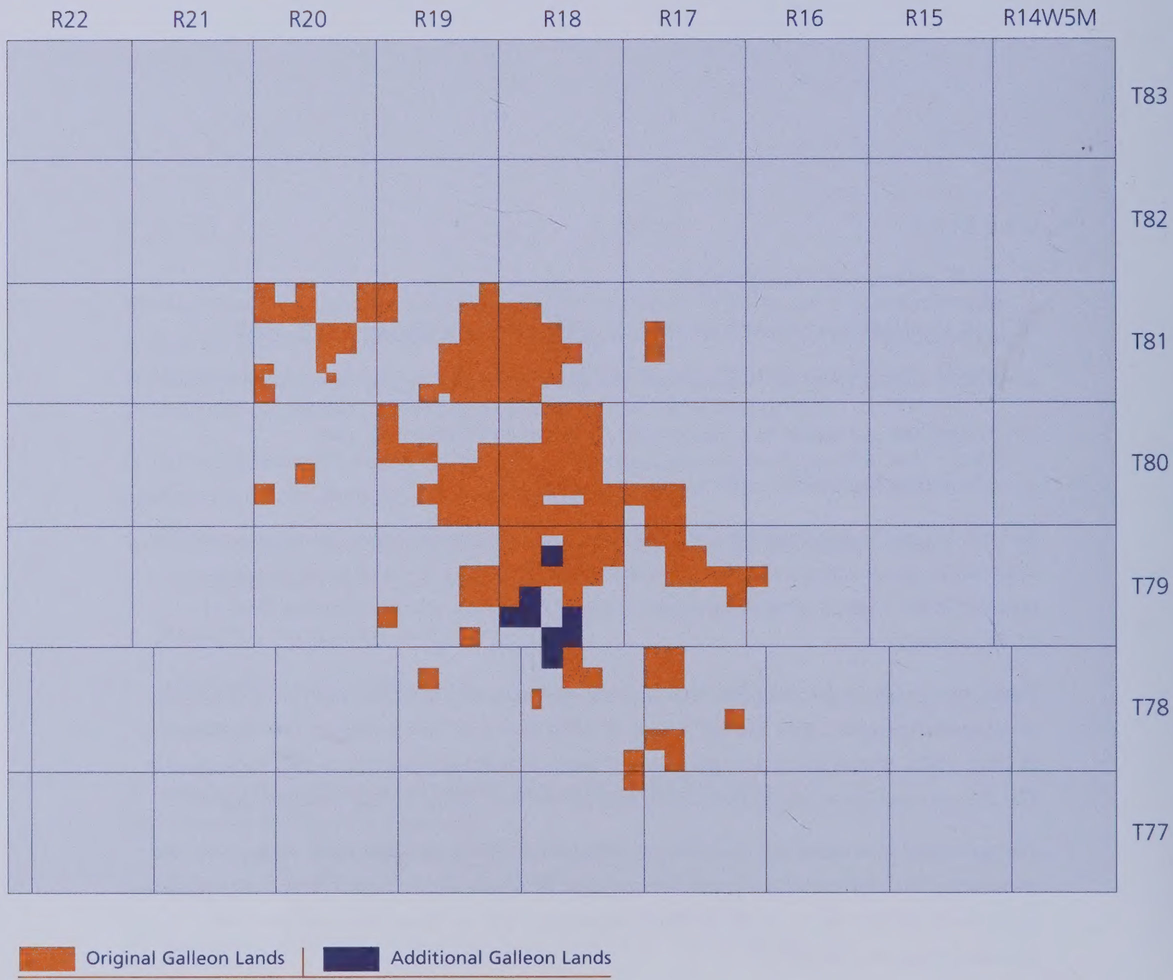
The successful start could not have been accomplished without the hard work, enthusiasm and creativity of the Galleon staff. Please refer to page 28 of this annual report for a listing of the staff. We would also like to thank the Galleon directors and all of our investors for their encouragement and support.

We look forward to seeing you at our Annual and Special Meeting on May 5, 2004 and we welcome your inquiries at any time.

Glenn R. Carley
Chairman and
Chief Executive Officer

Steve Sugianto
President and
Chief Operating Officer

March 26, 2004



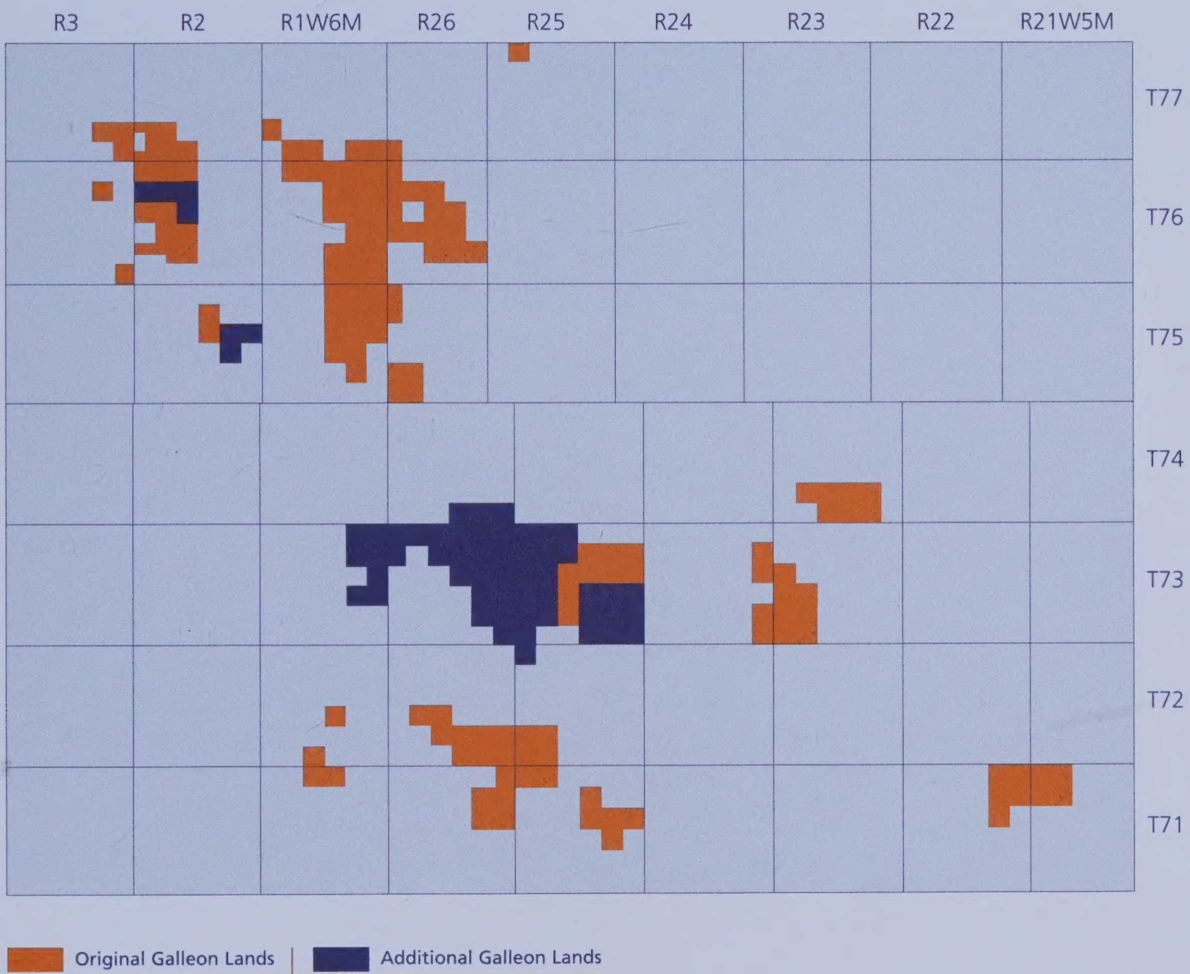
Dawson

Achievements in 2003

- Drilled five exploration wells
- Discovered four new gas pools; one of the wells (65% working interest) is capable of producing over six MMscfd (1,000 boepd) with an open flow test of over 15 MMscfd (2,500 boepd)
- Assembled strategic farm-ins, land sales and acquisitions to access 147 gross sections (94,080 gross acres) and 1,200 km 2-D seismic data
- Average working interest in the area of approximately 50%
- Built a significant drilling inventory of 20 to 25 well locations

Q1/2004 Activities

- Drilled four exploration wells
- Discovered five gas pools
- Increased land access by 16 gross sections (10,240 gross acres)



Calais

Achievements in 2003

- Drilled three exploration wells
- Discovered three new gas pools; one of the wells (60% working interest) is capable of producing over five MMscfd (833 boepd) with an open flow test of over 12 MMscfd (2,000 boepd)
- Assembled strategic farm-ins, land sales and acquisitions to access 172 gross sections (110,080 gross acres) and 800 km 2-D and 300 square km 3-D seismic data
- Acquired a gas property adding 50 boepd and a 43% working interest in a gas plant
- Average working interest in the area of approximately 87%
- Built a significant drilling inventory of 20 to 25 well locations

Q1/2004 Activities

- Drilled three exploration wells
- Discovered two significant gas pools
- Increased land access by 49 gross sections (31,360 gross acres)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS – DECEMBER 31, 2003

The following information has been prepared by management and should be read in conjunction with the financial statements and related notes for a full understanding of the financial position and results of operations. All amounts are expressed in Canadian dollars. Petroleum and natural gas reserves and volumes are converted to a common unit of measure on a basis of six thousand cubic feet (Mcf) of gas to one barrel (Bbl) of oil. Certain information regarding the Corporation contained herein may constitute forward-looking statements under applicable securities laws. Such statements are subject to known or unknown risks and uncertainties that may cause actual results to differ materially from those anticipated or implied in the forward-looking statements.

M D & A

Highlights of 2003

- Initial private funding of the Corporation was provided by officers, directors, employees and other investors in the amount of $1,050,000
- On September 30, 2003 the Corporation closed its initial public financing of flow-through shares raising gross proceeds of $10,250,000
- Net capital expenditures totaled $10.8 million in 2003 including $6.1 million on the purchase of property and equipment, $5.0 million invested in land, seismic, drilling, completion and facilities and net of equipment disposition proceeds of $0.3 million
- Drilled 12 wells including eight exploration and four development wells and resulting in nine wells cased for natural gas production
- Negotiated large area farm-in agreements and drilled significant discovery wells at Dawson and Calais, Alberta thereby establishing core areas for the Corporation
- Acquired producing oil and gas properties in October and December 2003

Galleon was incorporated on March 27, 2003 therefore, no comparative information exists. Prior to the time of the initial public financing, Galleon had limited oil and gas operations. In the fourth quarter of 2003, assets were acquired to establish a production base and to enable the Corporation to commence the exploration drilling program. The results of the drilling program were very successful and have provided the Corporation with substantial opportunity for significant growth.

The MD&A contains the term cash flow from operations which should not be considered an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with Canadian GAAP as an indicator of Galleon s performance. Galleon s determination of cash flow from operations may not be comparable to that reported by other companies. The reconciliation between net (loss) earnings and cash flow from operations can be found in the Statement of Cash Flows. The company also presents cash flow per share whereby cash flow from operations is divided by the weighted average number of shares outstanding to determine per share amounts.

Revenue

Galleon acquired crude oil producing properties at Delta West and Hoosier, Saskatchewan in October 2003. Effective December 1, 2003, the Corporation acquired oil and gas properties located at Monitor and Progress, Alberta and Lloydminster, Saskatchewan. Revenues and costs from these acquisitions are included in the financial statements from the date of acquisition.

Total oil and natural gas revenues for the period were $368,672. Gross crude oil and liquids revenues were $357,380 from the sales of 13,969 barrels. The average price received was $25.58/Bbl. After deducting clean oil trucking costs of $13,545 or $0.97/Bbl, net crude oil and liquids revenues were $343,835 or $24.61/Bbl.

The Corporation entered into a crude oil hedge contract commencing December 1, 2003 for a six-month period on 100 Bbl/d of crude oil production. The fixed price of the contract is $38.46/Bbl WTI Cdn. In December 2003, a cost of $11,582 was recorded related to this contract.

Natural gas revenues were $24,837 in 2003 from the sales of 3,876 Mcf. The average price received was $6.41/Mcf.

The natural gas wells drilled and cased in the fourth quarter of 2003 are expected to be placed on production towards the end of first quarter 2004 or early in the second quarter of 2004.

Other income of $129,472 was recorded in 2003 comprised of $51,232 in interest income earned on funds in the bank, $43,240 of income earned on compressor rental and $35,000 earned as a prospect fee.

Royalty expense

			%
Crown	$	54,432	69
Freehold		8,970	11
Freehold production tax		8,300	10
Net profit interest		6,697	9
GOR		688	1
Total	$	79,087	100

The majority of the producing properties are located on Crown-owned land, other than Lloydminster which is located on freehold lands. In addition, there is a net profit interest and freehold production tax on the Lloydminster property. Average royalties as a percentage of net revenues were 22.2% on crude oil and liquids and 11.3% on natural gas for 2003.

New natural gas production from the drilling program is mainly located on Crown land. In addition, some of the lands were earned through a farm-in and accordingly may be subject to a gross overriding royalty.

Operating expense

In 2003, operating costs of $170,317 were recorded net of processing income of $1,877. On a Boe basis, operating costs averaged $11.65/Boe. These costs included one-time expenditures to improve and enhance productivity from the newly acquired wells and facilities.

The majority of the new natural gas production from the drilling program will be in the core areas of Dawson and Calais, where operating costs are expected to average between $0.60 to $0.80/Mcf ($3.60 to $4.80/Boe).

Netbacks

		14,615 Boe $/Boe
Petroleum and natural gas revenue	$ 368,672	25.22
Crude oil hedge	(11,582)	(0.79)
Royalties	(79,087)	(5.41)
Subtotal	278,003	19.02
Operating costs	(170,317)	(11.65)
Operating netback	107,686	7.37
Other income	129,472	8.86
General and administrative costs	(352,110)	(24.09)
Cash flow used in operations	$ (114,952)	(7.86)

General & administrative expense

2003 was a start-up year for Galleon. Gross general and administrative expenses of $651,042 were incurred in 2003. It was essential to engage key management, technical and administrative personnel to set up for the successful execution of the business plan. Proper tools for the staff including software (both technical and administrative) and communications were secured. In addition, external consultants were retained as required. Corporate costs included legal, insurance, audit and shareholder and transfer agent expenses.
The costs are noted by category as follows:

		%
Salary and employee	$ 447,936	69
Consulting	68,270	10
Corporate	55,182	8
Office	43,105	7
Computer	36,549	6
Gross G&A	651,042	100
Recoveries	(298,932)	(46)
Net G&A	$ 352,110	54

In 2003, capital and operating overhead recoveries were $69,620, recoveries from the management agreement with Venture Energy Inc. were $149,267 and recoveries related to accounting and production services provided to third party companies were $80,045.

Estimated net general and administrative expenses of $1.2 million are budgeted for 2004. The Corporation is focused on managing the level of these expenditures and has set a target of below $2.00/Boe on a go forward basis.

Depreciation, depletion and site restoration

Depletion and depreciation recorded on oil and gas assets was $203,357 in 2003 or $13.91/Boe. Future development costs of $1,419,000 were included in the depletable cost base and make up 9% or $1.29 of the rate per Boe. Site restoration expense in 2003 was $15,914. Depreciation expense for office equipment was $3,389 in 2003.

Income and other taxes

Future income tax liability

Flow through share renouncements	$ 3,723,996
Tax effect on share issue costs	(327,863)
Recovery of future income tax	(94,008)
Balance at December 31, 2003	$ 3,302,125

Net earnings and cash flow

Cash of $114,952 was used in operations in 2003. A loss from operations of $243,604 was recorded in 2003. The Corporation expects to significantly increase cash flow and earnings from operations in 2004 due to the success of the fourth quarter 2003 drilling program.

Capital expenditures

Capital expenditures totaled $11.1 million in 2003 including $6.1 million on the purchase of property and equipment and $5.0 million invested in land, seismic, drilling, completion and facilities and office equipment.

Additions	$ 5,063,883
Acquisitions, net of costs	6,089,293
Disposals	(320,000)
Depletion and depreciation	(206,746)
Property & equipment balance at December 31, 2003	$ 10,626,430

Land	$ 147,065
Geological and geophysical	318,964
Drilling and completion	3,906,442
Plant and facilities	648,404
Office equipment	43,008
Total additions to property and equipment	$ 5,063,883

In 2003, Galleon drilled 12 wells: three natural gas wells drilled and cased at Calais including one significant discovery well; five wells drilled with four natural gas wells cased for production at Dawson including one significant discovery well; two wells drilled with one well cased for natural gas production at John Lake; one natural gas well drilled and cased at Baldwinton; and one well drilled and abandoned at Barthel. In total, nine wells were cased for natural gas production.

The Corporation acquired land at Barthel and Bindloss, purchased seismic in core areas, purchased a compressor for use at Wymark and upgraded the facilities at Delta West. The compressor at Wymark was sold for no gain or loss prior to the end of 2003.

	Land	*Geological & geophysical*	*Drilling & completion*	*Plant & facilities*	*Total*
Dawson		23,468	1,438,383	3,364	$ 1,465,215
Calais		111,707	1,295,842	16,765	1,424,314
Barthel	96,423	67,492	311,350		475,265
John Lake		13,808	382,028	4,301	400,137
Wymark				363,240	363,240
Bindloss	50,642	73,188	226,702		350,532
Delta West			121,711	226,643	348,354
Baldwinton			121,785	3,517	125,302
Lloydminster				30,574	30,574
Monitor		29,301			29,301
Progress			8,641		8,641
Total oil and gas expenditures by area	147,065	318,964	3,906,442	648,404	$ 5,020,875

Liquidity and capital resources

Galleon's initial funding was provided by officers, directors, employees and other investors in the amount of $1,050,000. On September 30, 2003 the Corporation closed its initial public financing of flow-through shares raising gross proceeds of $10,250,000. For details of the equity financings see note 5 to the financial statements.

Source of funds used	
Issuance of shares, net of costs	$ 10,397,582
Disposal of equipment	320,000
Change in cash and working capital	550,546
	$ 11,268,128
Net additions to property and equipment	$ 5,063,883
Acquisitions, net of costs	6,089,293
Funds used in operations	114,952
	$ 11,268,128

At December 31, 2003 the Corporation had cash in the bank of $3.2 million. After including outstanding current assets and liabilities, the Corporation had a net working capital deficiency of $550,545 at period end.

On January 15, 2004, the Corporation completed the acquisition of Venture Energy Inc. ("Venture"). The purchase price was $17.75 million comprised of the issuance of 5,923,437 Class A shares of Galleon priced at $2.70 per share and the assumption of $1.76 million of net debt. Venture owns 500,000 of the Class A shares of the Corporation, had common management and Board members and was operated by the Corporation pursuant to the Venture Management Agreement.

On January 16, 2004, in conjunction with the acquisition of Venture, the Corporation set up facilities with a Canadian Bank. The facilities are comprised of a $10 million Cdn extendible revolving credit facility and a $2.5 million US swap facility. The rate for the credit facility is the bank's prime rate plus 0.25% per annum. Collateral for the facilities includes a demand debenture for $50,000,000 secured by a first floating charge over all of the property of the Corporation.

On February 10, 2004, the Corporation closed a special warrant ("Special Warrant") financing. In total 3,000,000 Special Warrants were issued at $4 each for gross proceeds of $12 million. Each Special Warrant will entitle the holder to receive one Class A share without payment of any additional consideration, subject to adjustment in certain events.

The resale of the Special Warrants and the Class A shares issuable on exercise thereof will be subject to a hold period expiring February 11, 2005 unless and until proposed amendments to applicable securities legislation come into force (which are scheduled to become effective March 30, 2004), in which case the hold period will expire June 11, 2004.

The Venture acquisition, the $10 million credit facility and the $12 million equity financing strengthen the Corporation's financial position. Cash flow generated from operations will also provide the funds to execute the planned 2004 capital expenditure program.

Reserves

The reserves of the Corporation were evaluated by Sproule Associates Limited ("Sproule") as at January 1, 2004 and have been prepared in accordance with NI 51-101. The reserve evaluation has been approved by the Board of Directors of Galleon.

Summary of reserves – forecast prices and costs

Reserves category	*Light/Medium Oil (Mbbl)*		*Heavy Oil (Mbbl)*		*Sales Gas (MMcf)*		*Natural Gas Liquids(Mbbl)*		*Total (Mboe)*	
	Gross	*Net*	*Gross*	*Net*	*Gross*	*Net*	*Gross*	*Net*	*Gross*	*Net*
Proved developed producing	63.8	48.3	379.8	336.0	98	85	0.3	0.2	460.1	398.6
Proved undeveloped	–	–	–	–	3,696	2,712	6.3	4.3	622.3	456.3
Total proved	63.8	48.3	379.8	336.0	3,794	2,797	6.5	4.4	1082.4	854.9
Probable	54.2	39.7	356.1	311.4	737	553	1.0	0.7	534.3	444.0
Total proved plus probable	117.9	88.0	735.9	647.4	4,531	3,350	7.6	5.1	1616.7	1298.9

Forecast prices

Reserves category	*Undisc*	*5%*	*10%*	*15%*	*20%*
	Net Present Value Before Income Taxes ($M) Discounted (per year) at:				
Proved developed producing	2,839	2,643	2,473	2,325	2,197
Proved undeveloped	12,338	10,670	9,445	8,504	7,755
Total proved	15,176	13,313	11,918	10,829	9,952
Probable	4,813	3,727	2,988	2,463	2,074
Total proved plus probable	19,989	17,040	14,906	13,292	12,026

Forecast prices

Reserves category	*Undisc*	*5%*	*10%*	*15%*	*20%*
	Net Present Value After Income Taxes ($M) Discounted (per year) at:				
Proved developed producing	3,016	2,675	2,372	2,169	2,017
Proved undeveloped	8,432	7,190	6,261	5,544	4,974
Total proved	11,448	9,864	8,633	7,713	6,991
Probable	3,197	2,430	1,913	1,549	1,284
Total proved plus probable	14,646	12,294	10,546	9,262	8,275

Sproule's forecast pricing assumptions	*WTI Cushing Oklahoma ($U.S./Bbl)*	*Edmonton Par Price 40 ° API ($Cdn./Bbl)*	*Alberta AECO-CSpot ($Cdn./MMBTU)*
2004	29.63	37.99	6.04
2005	26.80	34.24	5.36
2006	25.76	32.87	4.80
2007	26.14	33.37	4.91
2008	26.53	33.87	4.98

Summary of reserves – constant prices and costs

Reserves category	*Light/Medium Oil (Mbbl)*		*Heavy Oil (Mbbl)*		*Sales Gas (MMcf)*		*Natural Gas Liquids (Mbbl)*		*Total (Mboe)*	
	Gross	*Net*	*Gross*	*Net*	*Gross*	*Net*	*Gross*	*Net*	*Gross*	*Net*
Proved developed producing	70.6	53.7	381.5	336.5	115	100	0.3	0.2	471.6	407.2
Proved undeveloped	–	–	–	–	3,680	2,706	6.3	4.2	619.7	455.3
Total proved	70.6	53.7	381.5	336.5	3,796	2,807	6.6	4.4	1,091.2	862.5
Probable	57.8	42.0	360.1	314.0	765	574	1.1	0.7	546.6	4,52.3
Total proved plus probable	128.4	95.7	741.6	650.5	4,561	3,381	7.7	5.2	1,637.8	1,314.8

Sproule prepared a reserve evaluation as at January 1, 2004 using constant prices as follows: Edmonton Par – $39.94/Bbl Cdn; Hardisty Heavy – $24.20/Bbl Cdn; Hardisty Lloyd Blend – $27.57/Bbl Cdn; Alberta AECO-C – $6.41/Mcf Cdn; and Pentanes Plus – $39.94/Bbl Cdn.

Constant prices

Reserves category	*Net Present Value Before Income Taxes($M) Discounted (per year) at:*			
	Undisc	*5%*	*10%*	*15%*
Proved developed producing	4,670	4,206	3,832	3,526
Proved undeveloped	16,015	13,839	12,230	10,988
Total proved	20,684	18,045	16,062	14,514
Probable	7,355	5,666	4,530	3,728
Total proved plus probable	28,039	23,710	20,592	18,242

Constant prices

Reserves category	*Net Present Value After Income Taxes ($M) Discounted (per year) at:*			
	Undisc	*5%*	*10%*	*15%*
Proved developed producing	4,146	3,630	3,189	2,887
Proved undeveloped	10,550	9,021	7,872	6,981
Total proved	14,696	12,651	11,061	9,868
Probable	4,568	3,466	2,731	2,217
Total proved plus probable	19,264	16,116	13,792	12,085

Business risks

The Corporation is exposed to inherent risks in exploring for, developing, producing and marketing crude oil, liquids and natural gas. Some of these risks include:

- finding and producing reserves at a reasonable cost;
- the rising cost of land, services and property acquisitions;
- timely access to equipment and services;
- commodity prices which are currently strong but may not be sustainable.

Galleon focuses on managing these risks wherever possible. Efforts to minimize the risks include: employing qualified professional and technical staff; using the latest technology for finding and developing reserves; concentrating on core areas with high quality reserves and low cost production; entering into commodity price hedges when prudent; and maintaining financial flexibility by conservative use of debt financing.

Outlook

The purchase of Venture Energy Inc. in January 2004 was a strategic acquisition. The natural gas assets will provide a solid production and cash flow base for the Corporation. Combined with the increase in production and cash flow expected from the positive results of the fourth quarter 2003 drilling program, the 2004 drilling program can be expanded. With increased production, the Corporation should realize lower costs of operations including administrative costs.

The Corporation plans to maintain a strong balance sheet to be in a position to finance its operations and to provide a capital structure that is flexible for future opportunities. Galleon has the necessary resources including people, capital and the opportunities to grow and realize value for the shareholders.

The Corporation continues to review potential acquisitions in order to offset an expanded drilling program. While there is no certainty of making an acquisition, it is a priority of management with a significant manpower and resource commitment.

2003 Quarterly Information

	First Quarter	*Second Quarter*	*Third Quarter*	*Fourth Quarter*	*Annual*
Financial $					
Petroleum and natural gas sales, net of royalties and hedges	–	–	–	278,003	278,003
Funds provided by (used in) operations	–	(19,332)	(81,661)	(13,959)	(114,952)
Basic	–	–	–	–	(0.03)
Loss (after tax)	–	(25,386)	(120,677)	(97,541)	(243,604)
Basic	–	–	–	(0.02)	(0.06)
Capital expenditures	–	541,103	81,597	10,210,476	10,833,176
Total assets	–	875,571	10,471,707	15,075,622	15,075,622
Total liabilities	–	46,357	212,991	8,317,776	8,317,776
Operating					
Average daily production					
Oil and liquids (Bbl/d)	–	–	–	152	38
Natural gas (Mcf/d)	–	–	–	42	11
Oil equivalent (Boe/d) (6:1)	–	–	–	159	40
Average prices (net of hedges)					
Oil and liquids ($/Bbl)	–	–	–	24.61	24.61
Natural gas ($/Mcf)	–	–	–	6.41	6.41

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements and all information in the annual report are the responsibility of management. Management has prepared the financial statements in accordance with accounting principles generally accepted in Canada. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality and, when necessary, management has made informed judgments and estimates in accounting for transactions that were not complete at the balance sheet date. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances as indicated in the notes to the financial statements. Financial information contained elsewhere in the annual report has been prepared and reviewed by management to ensure it is consistent with the financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are protected and financial records are properly maintained to provide reasonable assurance that financial information is relevant and reliable.

The Audit and Reserves Committee is appointed by the Board of Directors, and comprises directors that are not employees of the Corporation. The Committee meets regularly with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is discharging its responsibilities, and to review the financial statements and the external auditors' report. The Board of Directors has approved the financial statements.

Glenn R. Carley

Chairman and
Chief Executive Officer

Shivon M. Crabtree

Vice President Finance and
Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of Galleon Energy Inc.

We have audited the balance sheets of Galleon Energy Inc. as at December 31 and June 30, 2003 and the statement of operations and deficit and cash flows for the period from March 27, 2003 to December 31, 2003. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at December 31 and June 30, 2003 and the results of its operations and its cash flows for the period from March 27, 2003 to December 31, 2003 in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta
March 17, 2004

Ernst & Young LLP
Chartered Accountants

FINANCIAL STATEMENTS

Balance Sheets

	At December 31 2003	At June 30 2003
Assets (note 8)		
Current		
Cash and cash equivalents (notes 4 and 7)	$ 3,204,663	$ 225,866
Accounts receivable and prepaid items	1,244,529	114,656
	4,449,192	340,522
Property and equipment (note 3)	10,626,430	535,049
	15,075,622	875,571
Liabilities		
Current		
Accounts payable and accrued liabilities	4,999,737	46,357
	4,999,737	46,357
Future site restoration and abandonment costs	15,914	–
Future income taxes (note 6)	3,302,125	–
	8,317,776	46,357
Commitments and contingencies (notes 7 and 8)		
Shareholders' Equity		
Share capital (note 5)	7,001,450	854,600
Deficit	(243,604)	(25,386)
	6,757,846	829,214
	$ 15,075,622	$ 875,571

Approved on behalf of the Board of Directors

W. L. Cooke   Fred C Coles

William L. Cooke, Director   Fred C. Coles, Director

See accompanying notes

Statement of Operations and Deficit

	For the period from March 27, 2003 to December 31, 2003
Revenue	
Petroleum and natural gas	$ 368,672
Crude oil hedge costs	(11,582)
Royalties	(79,087)
	278,003
Other income	129,472
	407,475
Expenses	
Operating	170,317
General and administrative	352,110
Depletion, depreciation and site restoration	222,660
	745,087
Loss from operations before income taxes	(337,612)
Recovery of future income taxes (note 6)	94,008
Net loss for the period and deficit, end of period	$ (243,604)
Net loss per share – basic Class A shares	(0.06)

See accompanying notes

Statement of Cash Flows

Cash provided by (used in) $	*For the period from March 27, 2003 to December 31,2003*
Operating	
Net loss for the period	$ (243,604)
Add items not requiring cash:	
Depletion, depreciation and site restoration	222,660
Recovery of future income taxes	(94,008)
Cash flow used in operations	(114,952)
Change in non-cash working capital	(197,715)
	(312,667)
Financing	
Issue of common shares	11,300,000
Share issue costs	(902,418)
	10,397,582
Investing	
Expenditures on property and equipment	(5,063,883)
Acquisitions of oil and gas properties (note 3)	(6,089,293)
Proceeds on sale of equipment	320,000
Change in non-cash working capital	3,952,924
	(6,880,252)
Increase in cash and cash equivalents for the period	3,204,663
Cash and cash equivalents, beginning of period	–
Cash and cash equivalents, end of period	$ 3,204,663
Supplemental Information	
Cash interest received	51,232

See accompanying notes

NOTES TO FINANCIAL STATEMENTS
December 31, 2003

1. Incorporation and Business Description

Galleon Energy Inc. ("Galleon" or the "Corporation") was incorporated under the Business Corporations Act of Alberta on March 27, 2003. The business of the Corporation is the acquisition of, exploration for and development of petroleum and natural gas properties in western Canada. Galleon is listed on the TSX Venture Exchange under the symbols "GO.A" and "GO.B".

2. Significant Accounting Policies

→ Basis of presentation

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

→ Cash and cash equivalents

Cash and cash equivalents may include highly liquid short-term investments with initial maturities of three months or less. They are recorded at cost which approximates fair market value.

→ Property and equipment

Petroleum and natural gas properties and equipment

The Corporation follows the full cost method of accounting whereby all costs related to the exploration for and development of petroleum and natural gas reserves, whether productive or unproductive, are capitalized in one Canadian cost centre. Such costs include land acquisition, drilling, equipping, geological and geophysical and overhead expenses related to exploration and development activities. These costs are depleted on the unit of production method using estimated gross proven petroleum and natural gas reserves as determined by independent professional engineers. Petroleum and natural gas reserves are converted to a common unit of measure on an energy equivalent basis of six mcf of gas to one barrel of oil. Costs of acquiring and evaluating unproven properties are excluded from depletion calculations until it is determined whether or not proven reserves are attributable to the properties or impairment occurs.

Proceeds from the sale of petroleum and natural gas properties and related equipment are applied against capitalized costs, with no gain or loss recognized, unless such a sale would result in a change in the rate of depletion of 20% or more.

Ceiling test

The capitalized costs less accumulated depletion and depreciation, future income taxes and site restoration and abandonment costs are limited to an amount equal to the estimated future net revenue from gross proved reserves (based on prices and costs at the balance sheet date) plus the cost, if any, (net of impairments) of unproved properties, less estimated future site restoration and abandonment, general and administrative expenses, financing costs and income taxes.

Provision for site restoration

Future site restoration and abandonment costs of the Corporation's petroleum and natural gas properties are estimated by reference to costs currently experienced by the Corporation. The estimated expense is reduced by expected equipment salvage values at the time of the abandonment. The resulting net estimated expense, if any, is amortized to earnings over the remaining life of the Corporation's reserves on a unit of production basis. Actual expenditures are applied against the accumulated provision account.

Office furniture and equipment

Office furniture, equipment and other assets are recorded at cost and depreciated on a straight line basis over their estimated useful lives of three to five years.

→ Revenue recognition

Petroleum and natural gas sales are recognized when commodities are sold.

→ Joint interests

The Corporation's petroleum and natural gas activities may be conducted jointly with others. These financial statements reflect only the Corporation's proportionate interest in such activities.

→ Measurement uncertainty

The amounts recorded for depletion and depreciation of property and equipment, the provision for future site restoration and abandonment costs and the ceiling test calculation are based on estimates of proven reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be significant.

→ Future income taxes

The liability method is used in accounting for income taxes. Under this method, future income tax assets and liabilities are recognized based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period in which the change is substantively enacted.

→ Flow-through shares

The Corporation has financed a portion of its exploration and development activities through the issuance of flow-through shares. Under the terms of the flow through share agreements, the tax attributes of the related expenditures are renounced to subscribers. To recognize the foregone tax benefits to the Corporation, the carrying value of the shares issued is reduced by the tax effect of the tax benefits renounced to subscribers. In 2003, the Corporation adopted the recommendation of the Emerging Issues Committee of the CICA resulting in recognition of the foregone tax benefit at the time of the renouncement provided there is reasonable assurance that the expenditures will be incurred.

→ Financial instruments

The Corporation periodically enters into commodity price derivative instruments to reduce the Corporation's exposure to adverse fluctuations in commodity prices. No contracts are entered into for trading or speculative purposes. Gains and losses relating to commodity swaps that meet hedge criteria are recognized in the statement of operations concurrently with the hedged transaction. (See note 7)

Financial instruments recognized on the balance sheet include cash and cash equivalents, accounts receivable and prepaid items and accounts payable and accrued liabilities. As at December 31, 2003 and June 30, 2003, there are no significant differences between the carrying amounts reported on the balance sheet and their estimated fair values.

A portion of the Corporation's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks.

At December 31, 2003, the Corporation was not affected by changes in interest rates since no debt amounts were outstanding.

→ Stock-based compensation plans

The Corporation has a stock-based compensation plan, which is described in note 5.

As options are issued at current market value, the option has no intrinsic value and therefore, no compensation expense is recorded when the options are granted. Consideration paid by optionees on the exercise of stock options is credited to share capital.

Direct awards of stock to employees and stock option awards granted to non-employees are accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value of direct awards of stock is determined by reference to the quoted market price of the Corporation's stock and the fair value of stock options is determined using the Black Scholes option pricing model.

3. Property and Equipment

		Cost		Accumulated Depletion & Depreciation		Net Book Value
Petroleum and natural gas properties & equipment	$	10,790,168	$	203,357	$	10,586,811
Office furniture and equipment		43,008		3,389		39,619
Balance at December 31, 2003	$	10,833,176	$	206,746	$	10,626,430

		Cost		Accumulated Depletion & Depreciation		Net Book Value
Petroleum and natural gas properties & equipment	$	523,539	$	5,800	$	517,739
Office furniture and equipment		17,564		254		17,310
Balance at June 30, 2003	$	541,103	$	6,054	$	535,049

On October 28, 2003 the Corporation acquired crude oil properties in the Delta West and Hoosier areas of Saskatchewan from Venture Energy Inc. ("Venture") at fair value of $3,531,822. Venture holds a direct interest in 500,000 Galleon Class A shares. In addition, Galleon manages Venture's oil and gas activities pursuant to the Venture Management Agreement and several members of Galleon's management and one Director were also members of Venture's management and Board of Directors respectively. In addition, $25,822 was incurred in 2003 for preliminary costs of the Venture corporate acquisition in January 2004. (see note 8)

Effective December 1, 2003 the Corporation acquired oil and gas properties in the Progress and Monitor areas of Alberta and in Lloydminster, Saskatchewan from High Point Resources Inc. ("High Point") at fair value of $2,531,649. In 2003, High Point had common members of management and three of the Board of Directors with Galleon. In the period ended December 31, 2003, the Corporation paid High Point for the rent of space and the provision of other administrative services.

For the period ended December 31, 2003, the provision for site restoration and abandonment costs was $15,914 and was included in depletion, depreciation and site restoration expense on the statement of operations.

No indirect general and administrative expenses have been capitalized in 2003. At December 31, 2003, costs of $147,065 related to unproven properties have been excluded from the depletion calculation.

4. Bank

At December 31, 2003 the Corporation was in the process of arranging a credit facility and was financing operations with available cash. (See notes 7 & 8)

5. Share Capital

→ Authorized

Unlimited number of preferred shares with no par value

Unlimited number of voting Class A shares with no par value

Unlimited number of voting Class B shares with no par value, convertible (at the option of the Corporation) at any time after December 31, 2006 and before December 31, 2008, into Class A shares. The fraction is calculated by dividing $10 by the greater of $1 and the then current market price of Class A shares. If conversion has not occurred by the close of business on December 31, 2008, the Class B shares become convertible (at the option of the shareholder) into Class A shares on the same basis. Effective February 1, 2009, all remaining Class B shares will be deemed to be converted to Class A shares.

Issued and outstanding	*Number of Shares*	*Amount*
Class A shares		
Issued for cash as initial private capital (ii):		
March 27, 2003	1	$ –
June 12, 2003	3,150,000	787,500
June 27, 2003	318,000	79,500
Share issue costs	–	(12,400)
Balance at June 30, 2003	3,468,001	854,600
Issued for cash as initial private capital (ii):		
July 15, 2003	32,000	8,000
July 22, 2003	200,000	50,000
July 25, 2003	500,000	125,000
Issued for cash pursuant to public offering (i)	4,100,000	1,025,000
Balance at December 31, 2003	8,300,001	2,062,600
Class B shares		
Issued for cash pursuant to public offering (i)	922,500	9,225,000
Balance at December 31, 2003	922,500	9,225,000
Tax effect of flow through shares (i)		(3,723,996)
Share issue costs, net of tax of $327,863 (i)		(562,154)
Total share capital – December 31, 2003	9,222,501	$ 7,001,450

i. *On September 30, 2003 the Corporation issued 10,250 units at a price of $1,000 per unit. Each unit consisted of 400 Class A shares and 90 Class B shares, with a stated value of $0.25 and $10.00 respectively. The Corporation sold 4,100,000 Class A shares on a flow-through basis at an issue price of $0.25 per share for gross proceeds of $1,025,000. The Corporation sold 922,500 Class B shares on a flow-through basis at an issue price of $10.00 per share for gross proceeds of $9,225,000. Share issue costs of $890,017 were incurred.*

   The Corporation is committed to spend 100% of the funds on qualifying exploratory and development expenditures. At December 31, 2003 in accordance with the terms of the share subscription agreements, the Corporation renounced for income tax purposes $10,250,000 to holders of Class A shares and Class B shares. To December 31, 2003 the Corporation incurred $3,717,582 in eligible expenditures and must incur an additional $6,532,418 prior to December 31, 2004. The taxable benefit which will be lost to the Corporation will be $3,723,996 at current tax rates.

ii. *The Corporation issued 4,200,001 Class A shares at a price of $0.25 per share as initial private capital to directors, officers, employees, consultants and certain other parties. Share issue costs were $12,400. 2,450,000 of the Class A shares held by certain directors, officers and affiliates have been placed in escrow and may be released from escrow only under the terms of the escrow agreement. The escrow agreement provides for the release of the shares over a three year period.*

→ Options

The Corporation has a share option plan which was approved effective July 22, 2003. The exercise price of each option equals the market price of the Corporation's Class A shares on the date of the grant. No compensation expense is recognized for the plan when share options are issued or exercised. The options will vest one third immediately and one third on each of the second and third anniversaries of the date of the grant and expire five years from the date of grant. The Corporation may grant up to 10% of the aggregate number of Class A shares and Class B shares outstanding and no one optionee is permitted to hold options entitling such optionee to purchase more than 5% of the aggregate number of issued and outstanding Class A and Class B shares. Class A shares have been reserved for all options granted. See note 8.

	Number of Shares		*Weighted Average Exercise Price*
Opening	–		–
Granted	900,000	$	0.35
Closing	900,000	$	0.35
Exercisable, end of year	300,000	$	0.35

Options Outstanding						*Options Exercisable*		
	Exercise price	*Number Outstanding*	*Weighted Average Remaining Life (Years)*		*Weighted average exercise price*	*Number Exercisable*		*Weighted Average Exercise Price*
$	0.35	900,000	4.75	$	0.35	300,000	$	0.35

The fair value of options granted during the period was estimated at the date of grant using a Black-Scholes Option Pricing Model with the following assumptions for 2003: risk-free interest rate of 2%; dividend yield of 0%; volatility factor of the market price of the Corporation's Class A shares of 45.6%; and, an average expected life of the options of 3 years. For purposes of pro forma disclosure, the estimated fair value of the options is amortized to expense over the option vesting periods. On a pro-forma basis, had the fair value method been used, the net loss for the period ended December 31, 2003 would be increased by $11,138. Basic loss per share would not be impacted.

→ Earnings per share

The Corporation utilizes the treasury stock method in the determination of diluted per share amounts. Under this method, the diluted weighted average number of shares is calculated assuming the proceeds that arise from the exercise of outstanding and in the money options are used to purchase common shares of the Corporation at their average market price for the period. The weighted average number of Class A shares outstanding during the period was 4,280,622 and diluted 5,047,148. The diluted weighted average number of Class A shares outstanding after deemed conversion of the Class B shares is 5,965,654.

6. Future Income Taxes

The components of the future income tax liability are as follows:

Differences between tax base and reported amounts for depreciable assets	$ 3,816,492
Benefit of non-capital losses	(223,831)
Benefit of attributed crown royalty income	(7,961)
Share issue costs	(277,741)
Provision for future site restoration and abandonment costs	(4,834)
	$ 3,302,125

Income taxes recorded in the Statement of Operations and Deficit are different than the amount computed by applying the combined Canadian federal and provincial corporate tax rates of 40.63% to the loss before income taxes. The majority of these differences are explained as follows:

Expected tax	$ (137,172)
Add (deduct) income tax effect of:	
Non-deductible crown royalties	20,824
Resource allowance	25,214
Attributed crown royalty income	(9,915)
Non-taxable or non-deductible items	1,045
Other	5,996
	$ (94,008)

7. Financial Instruments

On November 12, 2003, Galleon entered into a crude oil fixed price commodity hedge for 100 barrels of oil per day commencing on December 1, 2003 for a 6 month period. The fixed price for the hedge is $38.46 per barrel WTI Cdn.

On December 19, 2003, the Corporation entered into a crude oil fixed price commodity hedge for 100 barrels of oil per day commencing on January 1, 2004 for a 12 month period. The fixed price for the hedge is $40.80 per barrel WTI Cdn.

At December 31, 2003, cash on hand of $1,260,000 Cdn had been pledged as collateral for these contracts.

8. Subsequent Events

On January 15, 2004, the Corporation completed the acquisition of Venture Energy Inc. ("Venture"). The purchase price was \$17.75 million comprised of the issuance of 5,923,437 Class A shares of Galleon priced at \$2.70 per share and the assumption of \$1.76 million of net debt. Venture owns 500,000 of the Class A shares of the Corporation.

On January 16, 2004, in conjunction with the acquisition of Venture, the Corporation established facilities with a Canadian Bank. The facilities are comprised of a \$10 million Cdn extendible revolving credit facility and a \$2.5 million US swap facility. The rate for the credit facility is the bank's prime rate plus 0.25% per annum. Collateral for the facilities includes a demand debenture for \$50,000,000 secured by a first floating charge over all of the property of the Corporation.

On January 30, 2004, the Corporation completed the purchase of interests in a natural gas property and a gas plant and gathering system in the Calais area of Alberta. The purchase price was \$2.3 million including adjustments.

On February 2, 2004, the Corporation's board of directors approved the grant of 520,000 options at an exercise price of \$4.26 each to certain employees, consultants and officers of which 95,000 options were granted to officers.

On February 10, 2004, the Corporation closed a special warrant ("Special Warrant") financing. In total 3,000,000 Special Warrants were issued at \$4.00 each for gross proceeds of \$12 million. Each Special Warrant will entitle the holder to receive one Class A share without payment of any additional consideration, subject to adjustment in certain events.

The resale of the Special Warrants and the Class A shares issuable on exercise thereof will be subject to a hold period expiring February 11, 2005 unless and until proposed amendments to applicable securities legislation come into force (which are scheduled to become effective March 30, 2004), in which case the hold period will expire June 11, 2004.

In January 2004, the Corporation relocated its offices and has commitments for the following payments:
2004 - \$110,178; 2005 - \$146,903; and 2006 - \$48,968.

CORPORATE INFORMATION

Corporate Office

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Fax: (403) 262-5561

www.galleonenergy.com

Board of Directors

John A. Brussa [2]

Glenn R. Carley, Chairman [2]

Fred C. Coles [1 2]

William L. Cooke [1]

Brad R. Munro [1]

Steve Sugianto

[1] *Member of the Audit and Reserves Committee*
[2] *Member of the Compensation Committee*

Officers

Glenn R. Carley,
Chairman and Chief Executive Officer

Steve Sugianto,
President and Chief Operating Officer

Shivon M. Crabtree,
VP Finance and Chief Financial Officer

C. Steve Cohen, Secretary

Employees

Lisa Adam, Office Administrator

Glenn Carley, Chairman and Chief Executive Officer

Shivon Crabtree, VP Finance and Chief Financial Officer

Tom Greschner, Manager, Production

Darrin Hanik, Manager, Engineering and Corporate Development

Laura Hardman, Land Analyst

Bev Henkel, Senior Accountant

Marc Houle, Chief Geophysicist

Jim Iverson, Chief Geologist

Jennifer Klotz, Manager, Land

Brent Lacey, Manager, Exploration

Glen Meade, Exploration Technologist

Carolee Pearce, Manager, Accounting

Steve Sugianto, President and Chief Operating Officer

Auditor

Ernst & Young LLP, Calgary, Alberta

Bank

The Canadian Imperial Bank of Commerce, Calgary, Alberta

Legal Counsel

Burnet, Duckworth & Palmer LLP, Calgary, Alberta

Evaluation Engineers

Sproule Associates Limited, Calgary, Alberta

Registrar and Transfer Agent

Valiant Trust Company, Calgary, Alberta

Stock Exchange Listing

TSX Venture Exchange, Trading Symbols GO.A and GO.B

Designed by Penta Graphix Ltd.

Company Definition

Throughout the Annual Report Galleon Energy Inc. is referred to as "Galleon", or the "Corporation".

Volume Reporting

Barrel of oil equivalent (Boe) (6:1) figures for the periods presented throughout this document are expressed at a conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil This conversion ratio approximates relative heating values, and is the generally accepted ratio used by Canadian oil and gas companies and investment analysts.

Forward Looking Statements

Certain information regarding the Corporation contained herein may constitute forward looking statements under applicable securities laws. Such statements are subject to known or unknown risks and uncertainties that may cause actual results to differ materially from those anticipated or implied in the forward looking statements.

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